

CITY OF PELHAM, ALABAMA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

CITY OF PELHAM, ALABAMA

TABLE OF CONTENTS

FINANCIAL SECTION:	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
REQUIRED SUPPLEMENTARY INFORMATION Management's Discussion and Analysis	2-8
BASIC FINANCIAL STATEMENTS:	
<i>Government-Wide Financial Statements:</i>	
Statement of Net Assets	9
Statement of Activities	10
<i>Fund Financial Statements:</i>	
Balance Sheet – Governmental Funds	11
Reconciliation of the Balance Sheet to the Statement of Net Assets	12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Proprietary Fund Net Assets	15
Statement of Revenues, Expenses, and Changes in Proprietary Fund Net Assets	16
Statement of Proprietary Fund Cash Flows	17-18
Notes to Basic Financial Statements	19-40
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedules of Funding Progress	41
Budgetary Comparison Schedule – General Fund	42
STATISTICAL SECTION:	
Assessed Value of Taxable Property	43
Top Ten Property Taxpayers	44
Water and Sewer System Customer Information	45
Water and Sewer System Rates	46

MOSES, PHILLIPS, YOUNG, BRANNON AND HENNINGER, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

3535 GRANDVIEW PARKWAY, SUITE 150

BIRMINGHAM, ALABAMA 35243

RICHARD H. PHILLIPS, C.P.A.

G. AUSTON YOUNG, C.P.A.

DANIEL H. BRANNON, C.P.A.

STEPHEN J. HENNINGER, C.P.A.

BARRY W. BROWN, C.P.A.

R. LEE WILLOUGHBY, C.P.A.

(205) 972-1215 / FAX (205) 972-1287

www.mpybh.com

JENNIFER B. GRAY, C.P.A.

CYNTHIA E. BRYAN, C.P.A.

A. BRIANA MADISON, C.P.A.

CHRISTINA W. FELTMAN, C.P.A.

CHARLES H. MOSES, C.P.A. (1890-1970)

CHARLES H. MOSES, JR., C.P.A.

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
The City of Pelham, Alabama

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pelham, Alabama, as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Pelham, Alabama's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pelham, Alabama, as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of funding progress, and budgetary comparison information on pages 2 through 8, page 41, and page 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pelham, Alabama's financial statements as a whole. The statistical tables are presented for purposes of additional analysis and are not a required part of the financial statements. The statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Moses, Phillips, Young, Brannon, and Henninger LLP

Birmingham, Alabama
April 26, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF PELHAM, ALABAMA

The City of Pelham's Management's Discussion and Analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position, identify any material deviations from the financial plan, and identify individual fund issues or concerns.

Since the Management's Discussion and Analysis is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the City's financial statements.

HIGHLIGHTS

Financial Highlights

- The City's net assets for governmental activities increased by \$1,714,973.
- The total cost of all the City's programs was \$41,334,048.
- During the year, the City had expenses of \$25,582,754 for governmental activities and transfers of \$1,234,617 to business-type activities, which was \$1,714,973 less than the \$28,532,344 generated in general and program revenues.
- The City's combined assets exceeded its combined liabilities by \$81,453,493, which will allow the City to continue to meet ongoing obligations to citizens and creditors.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 9 and 10) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements begin on page 11. For governmental activities, these statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail by providing information about the City's most significant funds.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 3. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used in most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in them. You can think of the City's net assets - the difference between assets and liabilities - as one way to measure the City's financial health or *financial position*. Over time, *increases or decreases* in the City's net assets, is one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental Activities** - Most of the City's basic services are reported here, including general administration, police, fire, public works, parks and recreation, and library. Property taxes, sales taxes, program revenues, and grants finance most of these activities.
- **Business-type Activities** - The City's Water and Sewer System, Civic Complex, Ballantrae Golf, Racquet Club, Garbage Fund, and Rental Fund are reported here. The City charges a fee to customers to help cover costs of these services.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 6. The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds - governmental and proprietary - use different accounting approaches.

- **Governmental Funds** - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliations after the fund financial statements.
- **Proprietary Funds** - When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

THE CITY AS A WHOLE

Financial Analysis of the City as a Whole

Net Assets

The City's combined net assets increased by \$3,289,239 from 2011 to 2012. The governmental activities net assets increased approximately 4.5%. This increase in governmental activities resulted from increase in sales tax and business license revenues. The increase in business-type activities net assets resulted from transfers from the governmental activities.

GOVERNMENT-WIDE STATEMENTS

The following table reflects the condensed Statement of Net Assets:

Statement of Net Assets

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2011	2012	2011	2012	2011	2012
Current and other assets	\$ 24,633,189	\$ 27,208,773	\$ 12,291,251	\$ 10,423,751	\$ 36,924,440	\$ 37,632,524
Capital assets	31,301,272	30,348,799	70,368,718	70,644,385	101,669,990	100,993,184
Total assets	<u>55,934,461</u>	<u>57,557,572</u>	<u>82,659,969</u>	<u>81,068,136</u>	<u>138,594,430</u>	<u>138,625,708</u>
Long-term liabilities	12,019,179	12,013,204	40,936,104	37,841,703	52,955,283	49,854,907
Other liabilities	6,189,994	6,104,107	1,284,899	1,213,201	7,474,893	7,317,308
Total liabilities	<u>18,209,173</u>	<u>18,117,311</u>	<u>42,221,003</u>	<u>39,054,904</u>	<u>60,430,176</u>	<u>57,172,215</u>
Net assets:						
Invested in capital assets, net of related debt	21,607,613	20,961,600	29,847,927	33,249,616	51,455,540	54,211,216
Restricted	1,201,878	1,303,479	-	-	1,201,878	1,303,479
Unrestricted	14,915,797	17,175,182	10,591,039	8,763,616	25,506,836	25,938,798
Total net assets	<u>\$ 37,725,288</u>	<u>\$ 39,440,261</u>	<u>\$ 40,438,966</u>	<u>\$ 42,013,232</u>	<u>\$ 78,164,254</u>	<u>\$ 81,453,493</u>

For more detailed information see the Statement of Net Assets on page 9.

The City's combined net assets increased to \$81,453,493 from \$78,164,254, or 4.5% as a result of the increase in net assets of the governmental activities of \$1,714,793 and the increase in net assets of business-type activities of \$1,574,266. The City's unrestricted net assets for governmental activities, the part of net assets that can be used to finance day-to-day operations, were \$17,175,182.

Changes in Net Assets

The governmental activities total revenues decreased by approximately 5.5% to \$28,532,344 due primarily to a decrease in grant revenue and a decrease in capital contributions related to infrastructure. Sales taxes account for approximately 56.6% of all revenues. Property taxes account for approximately 18.6%. The majority of the remaining revenues come from charges for services.

The total cost of all programs and services increased by \$201,895. Business-type activities increased \$860,727, and the cost of governmental activities decreased by \$658,832.

The table on the following page shows the revenue and expenses of the total primary government.

Statement of Activities

	Governmental		Business-type		Totals	
	Activities		Activities		Totals	
	For the year ended September 30,		For the year ended September 30,		For the year ended September 30,	
	2011	2012	2011	2012	2011	2012
REVENUES						
Program revenues:						
Fees, fines, and charges						
for services	\$ 5,098,812	\$ 5,290,855	\$ 15,210,910	\$ 15,954,705	\$ 20,309,722	\$ 21,245,560
Operating grants and contributions	1,400,951	1,195,524	14,000	14,000	1,414,951	1,209,524
Capital grants and contributions	2,931,851	349,361	26,960	37,070	2,958,811	386,431
General revenues:						
Sales taxes	14,985,384	16,117,454	-	-	14,985,384	16,117,454
Property taxes	5,379,056	5,320,435	-	-	5,379,056	5,320,435
Other taxes	165,830	186,530	-	-	165,830	186,530
Interest earnings	326,890	144,205	118,120	76,673	445,010	220,878
Gain (loss) on disposal of capital assets	(89,143)	(72,020)	(238,057)	8,495	(327,200)	(63,525)
Total revenues	30,199,631	28,532,344	15,131,933	16,090,943	45,331,564	44,623,287
EXPENSES						
General administration	4,493,156	4,472,908	-	-	4,493,156	4,472,908
Police	8,219,633	7,873,718	-	-	8,219,633	7,873,718
Fire	7,964,470	7,769,222	-	-	7,964,470	7,769,222
Public works	2,839,819	2,814,220	-	-	2,839,819	2,814,220
Parks and recreation	1,142,402	1,076,457	-	-	1,142,402	1,076,457
Library	1,170,299	1,180,125	-	-	1,170,299	1,180,125
Interest on long-term debt	411,807	396,104	-	-	411,807	396,104
Water and Sewer	-	-	7,704,628	8,237,653	7,704,628	8,237,653
Civic Complex	-	-	2,773,300	2,786,552	2,773,300	2,786,552
Ballantrae Golf Club	-	-	2,283,482	2,370,195	2,283,482	2,370,195
Racquet Club	-	-	1,188,527	1,150,689	1,188,527	1,150,689
Rental Fund	-	-	38,687	276,024	38,687	276,024
Garbage Fund	-	-	901,943	930,181	901,943	930,181
Total expenses	26,241,586	25,582,754	14,890,567	15,751,294	41,132,153	41,334,048
Excess (deficiency) before transfers	3,958,045	2,949,590	241,366	339,649	4,199,411	3,289,239
Transfers	(7,350,420)	(1,234,617)	7,350,420	1,234,617	-	-
Change in net assets	(3,392,375)	1,714,973	7,591,786	1,574,266	4,199,411	3,289,239
Beginning net assets	41,117,663	37,725,288	32,847,180	40,438,966	73,964,843	78,164,254
Ending net assets	\$ 37,725,288	\$ 39,440,261	\$ 40,438,966	\$ 42,013,232	\$ 78,164,254	\$ 81,453,493

Governmental Activities

The change in net assets of governmental activities was \$1,714,973, resulting primarily from increase in sales tax revenue and business license revenue.

Business-type Activities

The change in net assets of business-type activities was \$1,574,266, resulting primarily from transfers from governmental activities.

THE CITY’S FUNDS

Governmental Funds

As of the year-end, the Governmental Funds reported a combined fund balance of \$21,232,441, which is approximately 14.7% more than the beginning of the year. The General Fund experienced a net increase of \$2,559,544, resulting primarily from an increase in sales tax revenue and business license revenue.

Business-type Funds

As of the year-end, Business-type Funds reported combined net assets of \$42,013,232, which is approximately 3.8% more than the beginning of the year. The Business-type Funds experienced a net increase of \$1,574,266, resulting primarily from transfers from the General Fund.

General Fund Budgetary Highlights

General Fund revenues exceeded budget by \$2,240,783, largely due to greater than anticipated sales tax and business license revenue. The revenue budget is based on prior year actual revenues and does not factor in any growth. General fund revenues do not include proceeds from debt.

General Fund expenditures were less than budgeted amounts by \$275,978 largely due to a city wide decrease in spending.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the City had \$100,993,184 invested in a broad range of capital assets, including the Water and Sewer System, Civic Complex, Racquet Club, Ballantrae Golf Club, fire and police equipment, vehicles, buildings, a library, a senior citizen center, park facilities, streets, and roads. This amount represents a net decrease (including additions and deductions) of \$676,806, or approximately .1% over last year. The decrease can be attributed to capital asset additions offset by depreciation expense.

Capital Assets

	Governmental Activities		Business-type Activities		Totals	
	2011	2012	2011	2012	2011	2012
Land	\$ 3,278,554	\$ 3,196,534	\$ 13,859,469	\$ 13,859,469	\$ 17,138,023	\$ 17,056,003
Construction in progress	155,000	201,536	3,081,273	728,167	3,236,273	929,703
Infrastructure, net	12,838,147	12,489,256	-	-	12,838,147	12,489,256
System and facilities, net	-	-	52,425,459	54,689,092	52,425,459	54,689,092
Water and Sewer and Rental fund buildings and improvements, net	11,046,377	10,583,100	769,943	732,731	11,816,320	11,315,831
Equipment, net	3,983,194	3,878,373	232,574	634,926	4,215,768	4,513,299
Total capital assets, net	<u>\$ 31,301,272</u>	<u>\$ 30,348,799</u>	<u>\$ 70,368,718</u>	<u>\$ 70,644,385</u>	<u>\$ 101,669,990</u>	<u>\$ 100,993,184</u>

Commitments

The Water and Sewer System had contractual commitments at September 30, 2012, of approximately \$1,370,625 for improvements to the waste water treatment plant.

Debt

At September 30, 2012, the City had \$46,781,968 in warrants and notes payable outstanding versus \$50,214,450 at September 30, 2011, a decrease of 6.8%. This decrease results primarily from payment of debt. Other obligations of the City include compensated absences and other post employment benefits payable.

	Governmental Activities		Business-type Activities		Totals	
	2011	2012	2011	2012	2011	2012
General Obligation Warrants	\$ 9,481,558	\$ 9,161,220	\$ 40,520,791	\$ 37,394,769	\$ 50,002,349	\$ 46,555,989
Notes payable	206,185	225,979	-	-	206,185	225,979
Capital lease	5,916	-	-	-	5,916	-
Totals	<u>\$ 9,693,659</u>	<u>\$ 9,387,199</u>	<u>\$ 40,520,791</u>	<u>\$ 37,394,769</u>	<u>\$ 50,214,450</u>	<u>\$ 46,781,968</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's Mayor, Revenue Director, and City Clerk/Finance Director considered many factors when setting the budget for the fiscal year ended September 30, 2013. Tax rates, anticipated sales tax collections, anticipated expenditures/expenses, prior year actual revenues/expenditures and the overall economy were some of these factors.

Pelham's local economy consists of commercial, retail, and light industrial business. Some of Pelham's largest businesses are Wal-Mart Supercenter, Publix, Home Depot, Holiday Inn, Hampton Inn, and numerous restaurants and auto dealerships.

The City continues to see a slight improvement in commercial development in the area in 2012. The population continues to grow. The City of Pelham population increased from 14,369 in the 2000 census to 21,352 in the 2010 census.

These indicators were taken into account when adopting the General Fund budget for fiscal year ended September 30, 2013. Amounts available for expenditure in the General Fund budget are \$26,788,798. The City expects sales tax to remain the same and expects a decrease in property taxes. The City also took into consideration the decrease in revenue and its effect on the City when budgeting expenditures.

If these estimates are realized, the City's budgetary fund balance is expected to increase moderately by the close of fiscal year 2013.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City Clerk at the City of Pelham, P.O. Box 1419, Pelham, Alabama 35124.

City of Pelham, Alabama
Statement of Net Assets
September 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	\$ 18,564,671	\$ 8,405,403	\$ 26,970,074
Accounts receivable	6,281,818	1,266,922	7,548,740
Accrued interest	-	77	77
Prepaid items	327,952	55,849	383,801
Inventory	-	230,061	230,061
Restricted assets:			
Cash and investments	1,980,474	352,913	2,333,387
Due from General Fund	(3,300)	3,300	-
Nondepreciable capital assets	3,398,070	14,587,636	17,985,706
Depreciable capital assets, net	26,950,729	56,056,749	83,007,478
Warrant issue costs, net	57,158	109,226	166,384
	<u>57,557,572</u>	<u>81,068,136</u>	<u>138,625,708</u>
Total Assets	<u>\$ 57,557,572</u>	<u>\$ 81,068,136</u>	<u>\$ 138,625,708</u>
Liabilities			
Accounts payable	\$ 108,244	\$ 248,505	\$ 356,749
Deferred revenue	5,064,190	45,765	5,109,955
Accrued liabilities	549,817	227,210	777,027
Accrued interest payable	13,161	405,596	418,757
Payable from restricted assets:			
Accounts payable	29,517	-	29,517
Customer deposits	167,406	286,125	453,531
Accrued interest payable	171,772	-	171,772
Noncurrent liabilities			
Due within one year	955,577	3,755,494	4,711,071
Due within one year - payable from restricted assets	297,064	14,000	311,064
Due in more than one year	10,760,563	34,016,209	44,776,772
Due in more than one year - payable from restricted assets	-	56,000	56,000
	<u>18,117,311</u>	<u>39,054,904</u>	<u>57,172,215</u>
Total Liabilities	<u>18,117,311</u>	<u>39,054,904</u>	<u>57,172,215</u>
Net Assets			
Invested in capital assets, net of related debt	20,961,600	33,249,616	54,211,216
Restricted for:			
Street improvements	209,422	-	209,422
Court	438,004	-	438,004
Police	205,262	-	205,262
Library	99,152	-	99,152
Capital projects	351,639	-	351,639
Unrestricted	17,175,182	8,763,616	25,938,798
	<u>39,440,261</u>	<u>42,013,232</u>	<u>81,453,493</u>
Total Net Assets	<u>39,440,261</u>	<u>42,013,232</u>	<u>81,453,493</u>
Total Liabilities and Net Assets	<u>\$ 57,557,572</u>	<u>\$ 81,068,136</u>	<u>\$ 138,625,708</u>

The accompanying notes are an integral part of these financial statements.

City of Pelham, Alabama
Statement of Activities
For the Year Ended September 30, 2012

Program Activities:	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Fees, Fines, & Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Governmental Activities:							
General Administration	\$ 4,472,908	\$ 4,889,815	\$ 4,261	\$ -	\$ 421,168	\$ -	\$ 421,168
Police	7,873,718	234,995	19,166	106,873	(7,512,684)	-	(7,512,684)
Fire	7,769,222	-	197,071	44,668	(7,527,483)	-	(7,527,483)
Public Works	2,814,220	4,500	903,668	197,820	(1,708,232)	-	(1,708,232)
Parks and Recreation	1,076,457	123,520	-	-	(952,937)	-	(952,937)
Library	1,180,125	38,025	71,358	-	(1,070,742)	-	(1,070,742)
Interest on long-term debt	396,104	-	-	-	(396,104)	-	(396,104)
Total Governmental Activities	25,582,754	5,290,855	1,195,524	349,361	(18,747,014)	-	(18,747,014)
Business-type Activities:							
Water and Sewer	8,237,653	9,556,017	-	37,070	-	1,355,434	1,355,434
Civic Complex	2,786,552	1,820,052	-	-	-	(966,500)	(966,500)
Ballantree Golf	2,370,195	2,175,910	14,000	-	-	(180,285)	(180,285)
Racquet Club	1,150,689	661,873	-	-	-	(488,816)	(488,816)
Rental Fund	276,024	721,145	-	-	-	445,121	445,121
Garbage Fund	930,181	1,019,708	-	-	-	89,527	89,527
Total Business-type Activities	15,751,294	15,954,705	14,000	37,070	-	254,481	254,481
Total Government	\$ 41,334,048	\$ 21,245,560	\$ 1,209,524	\$ 386,431	(18,747,014)	254,481	(18,492,533)
General Revenues:							
Taxes:							
Sales		16,117,454					16,117,454
Property		5,320,435					5,320,435
Other		186,530					186,530
Interest earnings		144,205				76,673	220,878
Gain (loss) on disposal of capital assets		(72,020)				8,495	(63,525)
Transfers		(1,234,617)				1,234,617	-
Total general revenues and transfers		20,461,987				1,319,785	21,781,772
Change in net assets		1,714,973				1,574,266	3,289,239
Net assets - beginning		37,725,288				40,438,966	78,164,254
Net assets - ending		\$ 39,440,261				\$ 42,013,232	\$ 81,453,493

The accompanying notes are an integral part of these financial statements.

City of Pelham, Alabama
Balance Sheet
Governmental Funds
September 30, 2012

	General Fund	Other Governmental Funds	Total
Assets			
Cash and investments	\$ 18,564,671	\$ -	\$ 18,564,671
Accounts receivable	6,281,818	-	6,281,818
Prepaid items	327,952	-	327,952
Restricted assets:			
Cash	594,209	1,386,265	1,980,474
Total Assets	<u>\$ 25,768,650</u>	<u>\$ 1,386,265</u>	<u>\$ 27,154,915</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 108,244	\$ -	\$ 108,244
Deferred revenue	5,064,190	-	5,064,190
Accrued liabilities	549,817	-	549,817
Payable from restricted assets:			
Accounts payable	-	29,517	29,517
Due to (from) other governmental funds	20,829	(17,529)	3,300
Deposits	96,608	70,798	167,406
Total Liabilities	<u>5,839,688</u>	<u>82,786</u>	<u>5,922,474</u>
Fund Balances:			
Nonspendable	126,583	-	126,583
Restricted for:			
Debt Service	476,772	-	476,772
Street improvements	-	209,422	209,422
Court	-	438,004	438,004
Police	-	205,262	205,262
Library	-	99,152	99,152
Capital projects	-	351,639	351,639
Assigned	612,143	-	612,143
Unassigned	18,713,464	-	18,713,464
Total Fund Balances	<u>19,928,962</u>	<u>1,303,479</u>	<u>21,232,441</u>
		-	
Total Liabilities and Fund Balances	<u>\$ 25,768,650</u>	<u>\$ 1,386,265</u>	<u>\$ 27,154,915</u>

The accompanying notes are an integral part of these financial statements.

City of Pelham, Alabama
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
September 30, 2012

Fund Balances - Total Governmental Funds		\$ 21,232,441
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:</p>		
Governmental capital assets	50,339,532	
Less: accumulated depreciation	<u>(19,990,733)</u>	30,348,799
<p>Warrant issue costs in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		
		57,158
<p>Interest payable used in the governmental activities are not payable from current resources and, therefore, are not reported in the governmental funds.</p>		
		(184,933)
<p>Long-term liabilities are not due and payable in the current year and, therefore, are not reported in the governmental funds, but are reported in the Statement of Net Assets:</p>		
Notes payable	(225,979)	
General Obligation Warrants	(9,161,220)	
Other post employment benefits payable	(1,076,755)	
Compensated absences	<u>(1,549,250)</u>	<u>(12,013,204)</u>
Net Assets of Governmental Activities		<u>\$ 39,440,261</u>

The accompanying notes are an integral part of these financial statements.

City of Pelham, Alabama
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2012

	General	Other Governmental Funds	Total Governmental Funds
Operating Revenues:			
Taxes:			
Sales	\$ 16,117,454	\$ -	\$ 16,117,454
Property	5,320,435	-	5,320,435
Motor Vehicle / Gas	576,161	196,153	772,314
Other	186,530	-	186,530
Licenses and Permits	3,913,059	-	3,913,059
Fines and Forfeitures	393,526	413,913	807,439
Charges for Services	177,795	-	177,795
Interest	140,748	3,457	144,205
Other	470,894	391,414	862,308
Total Revenues	<u>27,296,602</u>	<u>1,004,937</u>	<u>28,301,539</u>
Expenditures:			
Current:			
General Administration	3,670,911	354,696	4,025,607
Police	7,170,080	123,317	7,293,397
Fire	7,471,093	35,000	7,506,093
Public Works	2,088,543	162,224	2,250,767
Parks and Recreation	941,287	26,930	968,217
Library	1,040,955	53,393	1,094,348
Debt Service:			
Principal	479,863	-	479,863
Interest	388,639	-	388,639
Capital Outlay	416,681	157,776	574,457
Total Expenditures	<u>23,668,052</u>	<u>913,336</u>	<u>24,581,388</u>
Excess of Revenues over Expenditures	<u>3,628,550</u>	<u>91,601</u>	<u>3,720,151</u>
Other Financing Sources (Uses):			
Proceeds from Sale of Capital Assets	-	10,000	10,000
Proceeds from Notes Payable	165,611	-	165,611
Transfers in	2,839,315	-	2,839,315
Transfers out	(4,073,932)	-	(4,073,932)
Total Other Financing Sources (Uses)	<u>(1,069,006)</u>	<u>10,000</u>	<u>(1,059,006)</u>
Net Change in Fund Balances	2,559,544	101,601	2,661,145
Fund Balances, Beginning	<u>17,369,418</u>	<u>1,201,878</u>	<u>18,571,296</u>
Fund Balances, Ending	<u>\$ 19,928,962</u>	<u>\$ 1,303,479</u>	<u>\$ 21,232,441</u>

The accompanying notes are an integral part of these financial statements.

City of Pelham, Alabama
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended September 30, 2012

Net Change in Fund Balances - Total Governmental Funds		\$ 2,661,145
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives:</p>		
Expenditures for capital assets	574,457	
Less current year depreciation	<u>(1,747,735)</u>	(1,173,278)
<p>Donations of capital assets do not provide current financial resources and are not recorded in governmental funds. However, donations of capital assets increase net assets.</p>		
		302,825
<p>The proceeds from the sale of capital assets (\$10,000) are reported as other financing sources in the governmental funds. However, the net book value of the capital assets (\$82,020) is removed from the capital assets account in the Statement of Net Assets and offset against the sales proceeds resulting in a loss in the Statement of Activities of \$72,020.</p>		
		(82,020)
<p>Debt proceeds are reported as financing sources in governmental funds. However, the debt proceeds increase liabilities in the Statement of Net Assets and do not affect the Statement of Activities.</p>		
		(165,611)
<p>Repayment of debt principal is reported as an expenditure in governmental funds. However, the principal payments reduce liabilities in the Statement of Net Assets and do not result in an expense in the Statement of Activities.</p>		
		479,863
<p>Bond discounts, premiums, and issue costs are recorded as expenditures in the fund statements but are amortized in the statement of activities.</p>		
		(14,028)
<p>The following expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:</p>		
Net increase in compensated absences		(29,914)
Net increase in post employment benefit payable		(270,572)
Change in accrued interest expense		<u>6,563</u>
Change in Net Assets of Governmental Funds		<u>\$ 1,714,973</u>

The accompanying notes are an integral part of these financial statements.

City of Pelham, Alabama
Statement of Proprietary Fund Net Assets
September 30, 2012

	<u>Water & Sewer</u>	<u>Civic Complex</u>	<u>Ballantree Golf</u>	<u>Other Proprietary Funds</u>	<u>Total Proprietary Funds</u>
Assets					
Current:					
Cash	\$ 7,736,102	\$ 30,037	\$ 107,684	\$ 531,580	\$ 8,405,403
Accounts receivable	1,135,448	56,635	74,839	-	1,266,922
Accrued interest	-	-	77	-	77
Prepaid items	17,521	16,344	12,540	9,444	55,849
Inventory	113,835	37,590	55,010	23,626	230,061
Unamortized warrant issue cost	12,476	2,380	4,800	1,107	20,763
Total Current Assets	9,015,382	142,986	254,950	565,757	9,979,075
Noncurrent:					
Restricted cash	282,825	-	-	-	282,825
Restricted certificate of deposit	-	-	70,088	-	70,088
Restricted Due from General Fund	-	-	-	3,300	3,300
Non-Depreciable assets	1,680,153	9,880	7,463,703	5,433,900	14,587,636
Depreciable capital assets, net	42,538,961	6,240,937	3,701,005	3,575,846	56,056,749
Unamortized warrant issue cost, net of current portion	49,005	9,817	24,381	5,260	88,463
Total Noncurrent Assets	44,550,944	6,260,634	11,259,177	9,018,306	71,089,061
Total Assets	\$ 53,566,326	\$ 6,403,620	\$ 11,514,127	\$ 9,584,063	\$ 81,068,136
Liabilities					
Current:					
Accounts payable	\$ 80,645	\$ 37,882	\$ 31,832	98,146	\$ 248,505
Payable from restricted assets:					
Customer deposits	282,825	-	-	3,300	286,125
Deferred revenue	-	-	14,000	-	14,000
Deferred revenue	-	45,765	-	-	45,765
Accrued liabilities	114,439	61,933	44,761	6,077	227,210
Accrued interest payable	304,468	52,134	20,234	28,760	405,596
Current portion of compensated absences	71,931	45,239	40,694	25,156	183,020
Current portion of long-term debt	2,847,026	146,154	462,727	116,567	3,572,474
Total Current Liabilities	3,701,334	389,107	614,248	278,006	4,982,695
Noncurrent:					
Deferred revenue	-	-	8,171	-	8,171
Payable from restricted assets:					
Deferred revenue	-	-	56,000	-	56,000
Long-term debt, net of current portion	22,673,678	3,870,957	5,809,225	1,471,159	33,825,019
Compensated absences	71,930	45,239	40,694	25,156	183,019
Total Noncurrent Liabilities	22,745,608	3,916,196	5,914,090	1,496,315	34,072,209
Total Liabilities	26,446,942	4,305,303	6,528,338	1,774,321	39,054,904
Net Assets					
Invested in capital, net of related debt	18,698,410	2,233,706	4,895,480	7,422,020	33,249,616
Unrestricted (deficit)	8,420,974	(135,389)	90,309	387,722	8,763,616
Total Net Assets	27,119,384	2,098,317	4,985,789	7,809,742	42,013,232
Total Liabilities and Net Assets	\$ 53,566,326	\$ 6,403,620	\$ 11,514,127	\$ 9,584,063	\$ 81,068,136

The accompanying notes are an integral part of these financial statements.

City of Pelham, Alabama
Statement of Revenues, Expenses, and Changes in Proprietary Fund Net Assets
For the Year Ended September 30, 2012

	<u>Water & Sewer</u>	<u>Civic Complex</u>	<u>Ballantrae Golf</u>	<u>Other Proprietary Funds</u>	<u>Total Proprietary Funds</u>
Operating Revenues	\$ 9,556,017	\$ 1,820,052	\$ 2,189,910	\$ 2,402,726	\$ 15,968,705
Operating Expenses					
Salaries	1,484,336	1,120,187	887,926	549,511	4,041,960
Employee benefits	318,495	163,990	138,216	84,143	704,844
Payroll taxes	109,110	73,989	67,440	35,120	285,659
Depreciation	2,456,039	287,431	152,763	124,739	3,020,972
Water purchases	911,302	-	-	-	911,302
Program and event expenses	-	234,911	-	67,261	302,172
Utilities and telephone	548,382	316,870	77,152	242,658	1,185,062
Supplies expense	431,399	98,454	482,833	56,264	1,068,950
Maintenance and repairs	376,816	106,317	139,550	82,213	704,896
Insurance	69,715	44,235	50,826	23,154	187,930
Other	363,771	119,626	97,066	1,012,408	1,592,871
Total Operating Expenses	7,069,365	2,566,010	2,093,772	2,277,471	14,006,618
Operating Income	2,486,652	(745,958)	96,138	125,255	1,962,087
Non Operating Revenues (Expenses)					
Gain (loss) on disposal of capital assets	-	-	8,495	-	8,495
Interest income	73,748	198	1,074	1,653	76,673
Interest expense	(1,163,173)	(219,497)	(274,323)	(79,098)	(1,736,091)
Trustee fees	(5,115)	(1,045)	(2,100)	(325)	(8,585)
Total Non Operating Revenues (Expenses)	(1,094,540)	(220,344)	(266,854)	(77,770)	(1,659,508)
Income (Loss) Before Capital Contributions and Interfund Operating Transfers	1,392,112	(966,302)	(170,716)	47,485	302,579
Capital Contributions	37,070	-	-	-	37,070
Interfund Transfers In	-	809,916	495,000	485,325	1,790,241
Interfund Transfers (Out)	3,170	(447)	-	(558,347)	(555,624)
Change in Net Assets	1,432,352	(156,833)	324,284	(25,537)	1,574,266
Net Assets, Beginning of Year	25,687,032	2,255,150	4,661,505	7,835,279	40,438,966
Net Assets, End of Year	\$ 27,119,384	\$ 2,098,317	\$ 4,985,789	\$ 7,809,742	\$ 42,013,232

The accompanying notes are an integral part of these financial statements.

City of Pelham, Alabama
Statement of Proprietary Fund Cash Flows
For the Year Ended September 30, 2012

	Water and Sewer	Civic Complex	Ballantrae Golf	Other Proprietary Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 9,624,191	\$ 1,833,515	\$ 2,183,949	\$ 2,406,026	\$ 16,047,681
Cash paid to employees	(1,895,951)	(1,300,336)	(1,088,756)	(674,733)	(4,959,776)
Cash paid to suppliers for goods and services	(2,736,066)	(932,402)	(845,749)	(1,483,714)	(5,997,931)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>4,992,174</u>	<u>(399,223)</u>	<u>249,444</u>	<u>247,579</u>	<u>5,089,974</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers (to) from other funds	3,170	809,469	495,000	(73,022)	1,234,617
Due from City of Pelham	-	-	-	(3,300)	(3,300)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>3,170</u>	<u>809,469</u>	<u>495,000</u>	<u>(76,322)</u>	<u>1,231,317</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchase of property, plant, and equipment	(3,307,785)	(32,682)	5,342	(6,000)	(3,341,125)
Proceeds from sale of capital assets	-	-	(13,618)	-	(13,618)
Principal payments on debt	(2,620,661)	(189,042)	(455,000)	(87,168)	(3,351,871)
Interest payments on debt	(1,023,623)	(160,294)	(260,533)	(71,572)	(1,516,022)
Trustee fees	(5,115)	(1,045)	(2,100)	(325)	(8,585)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(6,957,184)</u>	<u>(383,063)</u>	<u>(725,909)</u>	<u>(165,065)</u>	<u>(8,231,221)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from maturity of certificate of deposit	3,284,203	-	84,000	-	3,368,203
Purchase of certificate of deposit	-	-	(70,000)	-	(70,000)
Interest on cash and investments	75,435	198	1,272	1,653	78,558
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>3,359,638</u>	<u>198</u>	<u>15,272</u>	<u>1,653</u>	<u>3,376,761</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,397,798	27,381	33,807	7,845	1,466,831
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>6,621,129</u>	<u>2,656</u>	<u>73,877</u>	<u>523,735</u>	<u>7,221,397</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 8,018,927</u>	<u>\$ 30,037</u>	<u>\$ 107,684</u>	<u>\$ 531,580</u>	<u>\$ 8,688,228</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ 2,486,652	\$ (745,958)	\$ 96,138	\$ 125,255	\$ 1,962,087
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	2,456,039	287,431	152,763	124,739	3,020,972
(Increase) decrease in:					
Accounts receivable	18,699	12,683	(16,842)	-	14,540
Prepaid expenses	12,185	2,281	985	128	15,579
Inventory	(1,096)	(11,050)	(8,737)	4,881	(16,002)
Increase (decrease) in:					
Accounts payable	(10,256)	(3,941)	9,115	16,645	11,563
Accrued expenses	49,475	47,809	9,225	(24,365)	82,144
Customer deposits	(36,610)	-	-	3,300	(33,310)
Deferred revenue	-	780	(3,105)	-	(2,325)
Compensated absences	17,086	10,742	9,902	(3,004)	34,726
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 4,992,174</u>	<u>\$ (399,223)</u>	<u>\$ 249,444</u>	<u>\$ 247,579</u>	<u>\$ 5,089,974</u>

The accompanying notes are an integral part of these financial statements.

City of Pelham, Alabama
Statement of Proprietary Fund Cash Flows - continued
For the Year Ended September 30, 2012

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Pelham Water and Sewer had amortization of bond discounts of \$18,332, amortization of bond premiums of \$43,551, amortization of bond issue costs of \$14,569, and amortization of deferred bond refunding costs of \$173,230.

System lines contributed by developers to Pelham Water and Sewer were \$37,070.

Pelham Civic Complex had amortization of warrant discounts of \$7,881, amortization of warrant issue costs of \$2,496, and amortization of deferred warrant refunding costs of \$50,990.

Ballantrae Golf Club had amortization of bond discounts of \$10,763 and amortization of bond issue costs of \$5,168.

Pelham Racquet Club had amortization of warrant discounts of \$1,622, amortization of warrant premiums of \$5,202, amortization of warrant issue costs of \$1,193, and amortization of deferred warrant refunding costs of \$11,783.

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

City of Pelham, Alabama

September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. General Statement

The City of Pelham (the "City"), an Alabama Municipal Corporation, was incorporated in 1964. The governing body is an elected Mayor and a five member elected City Council.

The financial statements of the City have been prepared in conformity with U.S. generally accepted accounting principles as applied to governmental units. The more significant of the City's accounting policies are described below.

2. Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Pelham has no component units.

3. Basis of Presentation

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and (2) operating or capital grants and contributions that are restricted to meeting the operational and capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

City of Pelham, Alabama

September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Governmental Fund Types:

Governmental funds are those through which general governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds.

The City reports the following major governmental funds:

General Fund

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the General Fund.

Additionally, the City reports the following governmental funds:

Non-major Special Revenue Funds

The Special Revenue Funds are used to account for the proceeds of specific revenue resources that are legally restricted or designated to expenditures for specified purposes.

Proprietary Fund Types:

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of operating income and changes in net assets, financial position, and cash flows. All assets and liabilities are included on the Statement of Net Assets.

The City reports the following major proprietary funds:

Water and Sewer System

The Water and Sewer System is used to account for the provision of water and sewer services to the residents and businesses of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system, billing, and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for Water and Sewer debt.

Pelham Civic Complex

The Civic Complex is used to account for providing goods and services to the general public. The Civic Complex operates as an ice arena and multi-purpose main arena which can be used for skating, ice events, trade shows, banquets, and other events. Activities of the fund include administration, operation and maintenance of the complex, billing, and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for Civic Complex debt.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

City of Pelham, Alabama

September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Ballantrae Golf Club

Ballantrae Golf Club is used to account for providing goods and services to the general public. Ballantrae is a full service golf course. Activities of the fund include administration, operation, and maintenance of the golf course and facilities, billing, and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for Golf Club debt.

Additionally, the City reports the following proprietary funds:

Rental Fund

The Rental Fund is used to account for rental services provided to certain local businesses and residents of the Belle Vista Mobile Home Park. Activities of the fund include administration and billing and collections of fees related to rent, vending, and other services provided.

Pelham Racquet Club

The Racquet Club is used to account for providing goods and services to the general public. The Racquet Club is a full service tennis facility. Activities of the fund include administration, operation and maintenance of the facilities, billing, and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for racquet club debt.

Garbage Fund

The Garbage Fund is used to account for the provision of garbage services primarily to the residents of the City. Activities of the fund include administration, billing, and collections of fees related to the garbage services provided.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board pronouncements, in which case, Governmental Accounting Standards Board prevails.

4. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

City of Pelham, Alabama

September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period, or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes and sales taxes as available if they are collected within 60 days after year end. The revenues susceptible to accrual are property taxes, sales taxes, and charges for services. All other Governmental Fund type revenues are recognized when received. Expenditures are recorded when the related fund liability is incurred. Exceptions to this general rule include principal and interest on long-term liabilities, which are recorded as fund liabilities when due, and compensated absences and other post employment benefits payable, which are recorded when payable from current available financial resources.

5. Cash

For purposes of the cash flow statement, the City's cash and cash equivalents are considered to be cash on hand, demand deposits, and certificates of deposit with original maturities of three months or less.

6. Restricted Assets

The use of restricted assets is limited by legal requirements or restrictions imposed externally by creditors or contributors. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted, as they are needed.

7. Prepaid Items

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year.

8. Allowance for Uncollectible Accounts

An allowance for uncollectible accounts is provided based on historical evidence (see Note C).

9. Inventory

Inventory consists of pro shop merchandise and food and beverage supplies for the Pelham Civic Complex and Ballantrae Golf Club, pro shop merchandise for the Pelham Racquet Club, and supplies for the Water and Sewer System and is recorded at the lower of cost or market, determined by the first in, first out method. The cost is recorded as an expenditure at the time individual inventory items are consumed rather than when purchased.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

City of Pelham, Alabama

September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

10. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure, which consist of the City's streets and roads, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets, including infrastructure, are valued at historical costs or estimated historical costs, if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Interest expense during the construction periods is capitalized as part of the costs of the assets.

Assets capitalized have an original cost of \$5,000 or more and five years or more of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20-40 Years
Water and Sewer System	30-40 Years
Machinery and Equipment	5-25 Years
Improvements	20 Years
Infrastructure	25-50 Years

Depreciation is provided in the proprietary funds in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line basis.

11. Amortization of Warrant Issue Costs

The costs of issuance of warrants are being amortized based on the maturity dates of the warrants.

12. Interfund Operating Transfers, Receivables, and Payables

During the normal course of operations, the City has numerous transactions between funds to provide services, construct assets, and service debt. These receivables and payables are classified as "Due to/from other funds," as they are all short-term in nature. These amounts have been eliminated on the government-wide financial statements, except for amounts outstanding between the General Fund and business-type activities.

Routine transfers of resources between City funds that are not intended to be repaid are classified separately from revenues and expenditures. Such interfund operating transfers are identified as "Interfund operating transfers in/(out)" in the accompanying financial statements.

13. Compensated Absences

The City's employees earn vacation leave in accordance with their longevity of service. Vacation leave earned, but not used, during the calendar year may be accumulated up to a maximum of forty days. Vacation leave earned in excess of forty days not used by December 31, shall be forfeited. An employee who resigns or retires in good standing shall be paid for earned vacation leave up to a maximum of forty days.

The City's employees are permitted to accrue compensatory time in lieu of monetary overtime compensation for hours worked in excess of a normal week. It is granted at a rate of one and one half hours of compensatory time for each hour of overtime worked. Employees may accrue up to 80 hours of compensatory time. All compensatory time earned is immediately 100% vested.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

City of Pelham, Alabama

September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Upon completion of twelve months of service, an employee may use sick leave. Sick leave is earned at a rate of one work day for each month of service. Sick leave earned during the year but not used may be accumulated up to a maximum of 60 days. Employees are not paid for unused sick leave upon termination of employment. Accordingly, sick pay is charged to expense when taken. No provision has been made in the financial statements for unused sick leave.

The accrued amounts of vacation and compensatory time are recorded as noncurrent liabilities in proprietary funds, net of current portion. The accrued amounts of vacation and compensatory time earned by employees whose salaries are charged to the General Fund are recorded as noncurrent liabilities in the government-wide financial statements.

14. Noncurrent Liabilities

In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Warrant premiums, discounts, and deferred amounts on refunding are deferred and amortized over the life of the warrants using the warrants outstanding method. Warrants payable are recorded net of the applicable warrant premiums, discounts, and deferred amounts on refunding.

15. Deferred Revenue

Governmental funds and statement of net assets report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received but are not yet recognizable.

Proprietary funds report deferred revenue in connection with resources that have been received but are not yet recognizable.

16. Fund Balance

The City's fund balances are classified as follows:

- Nonspendable - amounts that are not in spendable form or are required to be maintained intact.
- Restricted - amounts constrained to specific purposes by their providers (as such grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed - amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned - amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official body to which the Council delegates the authority.
- Unassigned - amounts that are available for any purpose.

It is the City's policy to use restricted balances first, followed by committed resources, assigned resources, and finally unassigned resources, as needed.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

City of Pelham, Alabama

September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

17. Use of Estimates

In preparing these financial statements, management is required to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

18. Property Tax Calendar

The City of Pelham's ad valorem property taxes are collected and remitted to the City by Shelby County. Taxes are levied annually on October 1, based on a lien date of the prior October 1. The taxes are due on December 31, following the levy.

NOTE B – DEPOSITS AND INVESTMENTS

Deposits

As of September 30, 2012, the City reported \$16,318,373 in governmental activities and \$8,758,316 in business-type activities in demand deposits, time deposits, and non-negotiable certificates of deposit. All of the City's demand deposits, time deposits, and non-negotiable certificates of deposit are insured and collateralized in accordance with the Security for Alabama Funds Enhancement, or SAFE Program, which is encompassed in Title 41, Chapter 14A, Code of Alabama 1975, as amended, which is a multiple financial institutions collateral pool. The statute provides for assessments against the members of the pool on a pro rata basis in the event that the collateral pool is insufficient to cover the losses of a member financial institution that fails. As such, all deposits covered by this collateral pool are considered to be fully insured.

Debt service trust funds in the amount of \$476,772 are invested by banks' trust departments in U.S. Government Securities and are not subject to collateralization requirements.

Investments

As of September 30, 2012, the City had the following investments, which were reported at fair value in governmental activities:

Type of Investment	Fair Value	Investment Maturity	
		10/1/12 to 3/31/2013	10/1/2013 to 3/31/14
Certificates of Deposit	\$ 3,750,000	\$ 2,750,000	\$ 1,000,000

State statutes authorize the City to invest in obligations of the U.S. Treasury, certain U.S. agency obligations, State of Alabama obligations, county obligations, and other municipal obligations, as well as bank certificates of deposit and bank public investment accounts.

The City does not have a formal investment policy that limits its allowable deposits or investments, other than those imposed by statutes discussed above, or that addresses the specific types of risks that the government is exposed to through its deposits or investments.

Interest Rate Risk – The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

City of Pelham, Alabama

September 30, 2012

NOTE B – DEPOSITS AND INVESTMENTS – CONTINUED

Credit Risk – The City does not have a formal investment policy that limits its investment choices other than those imposed by statutes discussed above, but all of the investments carry a Standard & Poor's rating of AAA.

Concentration of Credit Risk – The City places no limit on the amount it may invest in any one issuer.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investments. All of the City's investments at September 30, 2012, were insured.

NOTE C – RECEIVABLES AND PAYABLES

Receivables at September 30, 2012, consist of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Taxes:			
Sales	\$ 1,354,595	\$ -	\$ 1,354,595
Property	5,017,270	-	5,017,270
Customers	-	1,272,920	1,272,920
Intergovernmental	<u>64,404</u>	<u>-</u>	<u>64,404</u>
Gross Receivables	6,436,269	1,272,920	7,709,189
Less: Allowance for Uncollectibles	<u>(154,451)</u>	<u>(5,998)</u>	<u>(160,449)</u>
Net Receivables	<u>\$ 6,281,818</u>	<u>\$ 1,266,922</u>	<u>\$ 7,548,740</u>

Payables at September 30, 2012, consist of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Trade	\$ 108,837	\$ 233,043	\$ 341,880
Capital assets	<u>28,924</u>	<u>15,462</u>	<u>44,386</u>
Net Payables	<u>\$ 137,761</u>	<u>\$ 248,505</u>	<u>\$ 386,266</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

City of Pelham, Alabama

September 30, 2012

NOTE D – CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2012, was as follows:

	<u>Balance October 1</u>	<u>Additions/ Completions</u>	<u>Retirements/ Adjustments</u>	<u>Balance September 30</u>
Governmental Activities:				
Capital assets not being depreciated				
Land	\$ 3,278,554	\$ -	\$ (82,080)	\$ 3,196,534
Construction in progress	<u>155,000</u>	<u>46,536</u>	<u>-</u>	<u>201,536</u>
Total capital assets not being depreciated	<u>3,433,554</u>	<u>46,536</u>	<u>(82,020)</u>	<u>3,398,070</u>
Capital assets being depreciated				
Infrastructure	20,215,326	151,284	-	20,366,610
Buildings and improvements	16,186,430	23,960	-	16,210,390
Equipment	<u>9,742,964</u>	<u>655,502</u>	<u>(34,004)</u>	<u>10,364,462</u>
Total capital assets being depreciated	<u>46,144,720</u>	<u>830,746</u>	<u>(34,004)</u>	<u>46,941,462</u>
Less accumulated depreciation for:				
Infrastructure	7,377,179	500,175	-	7,877,354
Buildings and improvements	5,140,053	487,237	-	5,627,290
Equipment	<u>5,759,770</u>	<u>760,323</u>	<u>(34,004)</u>	<u>6,486,089</u>
Total accumulated depreciation	<u>18,277,002</u>	<u>1,747,735</u>	<u>(34,004)</u>	<u>19,990,733</u>
Total capital assets being depreciated, net	<u>27,867,718</u>	<u>(916,989)</u>	<u>-</u>	<u>26,950,729</u>
Governmental activities capital assets, net	<u>\$ 31,301,272</u>	<u>\$ (870,453)</u>	<u>\$ (82,020)</u>	<u>\$ 30,348,799</u>
	<u>Balance October 1</u>	<u>Additions/ Completions</u>	<u>Retirements/ Adjustments</u>	<u>Balance September 30</u>
Business-type Activities:				
Capital assets not being depreciated				
Land	\$ 13,859,469	\$ -	\$ -	\$ 13,859,469
Construction in progress	<u>3,081,273</u>	<u>587,988</u>	<u>(2,941,094)</u>	<u>728,167</u>
Total capital assets not being depreciated	<u>16,940,742</u>	<u>587,988</u>	<u>(2,941,094)</u>	<u>14,587,636</u>
Capital assets being depreciated				
System and facilities	93,043,173	5,153,624	-	98,196,797
Water and Sewer and Rental Fund buildings and improvements	1,099,460	-	-	1,099,460
Equipment	<u>2,567,580</u>	<u>499,468</u>	<u>(263,054)</u>	<u>2,803,994</u>
Total capital assets being depreciated	<u>96,710,213</u>	<u>5,653,092</u>	<u>(263,054)</u>	<u>102,100,251</u>
Less accumulated depreciation for:				
System and facilities	40,617,714	2,889,991	-	43,507,705
Water and sewer and Rental Fund buildings and improvements	329,517	37,212	-	366,729
Equipment	<u>2,335,006</u>	<u>93,769</u>	<u>(259,707)</u>	<u>2,169,068</u>
Total accumulated depreciation	<u>43,282,237</u>	<u>3,020,972</u>	<u>(259,707)</u>	<u>46,043,502</u>
Total capital assets being depreciated, net	<u>53,427,976</u>	<u>2,632,120</u>	<u>(3,347)</u>	<u>56,056,749</u>
Business-type activities capital assets, net	<u>\$ 70,368,718</u>	<u>\$ 3,220,108</u>	<u>\$ (2,944,441)</u>	<u>\$ 70,644,385</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

City of Pelham, Alabama

September 30, 2012

NOTE D – CAPITAL ASSETS – CONTINUED

Depreciation expense was charged as direct expense to programs of the primary government as follows:

Governmental Activities:	
General Administration	\$ 182,552
Police	543,019
Fire	240,569
Public Works	585,239
Parks and Recreation	107,215
Library	<u>89,141</u>
Total Depreciation Expense-Governmental Activities	<u>\$ 1,747,735</u>
Business-type Activities:	
Water and Sewer	\$ 2,456,039
Civic Complex	287,431
Ballantrae Golf Club	152,763
Rental Fund	8,528
Racquet Club	<u>116,211</u>
Total Depreciation Expense-Business-type Activities	<u>\$ 3,020,972</u>

NOTE E – LONG-TERM DEBT

Notes payable at September 30, 2012, are comprised of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Vehicle note payable to Central State Bank for six (6) 2010 Ford Crown Victorias, dated January 22, 2010. Monthly payment of \$3,932 for 36 months, including interest at 2.75% using the simple interest method.	\$ 15,583	-
Vehicle note payable to Central State Bank for seven (7) 2011 Ford Crown Victorias, dated March 9, 2011. Monthly payment of \$4,548 for 36 months, including interest at 1.75% using the simple interest method.	76,327	-
Vehicle note payable to Central State Bank for seven (7) 2012 Dodge Chargers, dated February 23, 2012. Monthly payment of \$4,455 for 36 months, including interest at 1.75% using the simple interest method.	<u>134,069</u>	<u>-</u>
 Total Notes Payable	 <u>\$ 225,979</u>	 <u>\$ -</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

City of Pelham, Alabama

September 30, 2012

NOTE E – LONG-TERM DEBT – CONTINUED

Warrants payable at September 30, 2012 are comprised of the following issues:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2001 General Obligation Warrants, dated May 1, 2001, due in semi-annual installments through August 1, 2014, bearing interest rates of 3.3% to 4.7% (less: unamortized discounts of \$1,195 and unamortized deferred amount on refunding of \$6,325).	\$ -	1,107,480
2003 General Obligation Warrants, dated March 1, 2003, due in semi-annual installments through March 1, 2023, bearing interest rates of 1.2% to 4.25% (less: unamortized discounts of \$60,772).	-	6,269,228
2004 General Obligation Warrants, dated March 1, 2004, due in semi-annual installments through December 1, 2020, bearing interest rates of 2.00% to 4.00% (less: unamortized discounts of \$58,071 and unamortized deferred amount on refunding of \$287,076).	339,058	5,805,795
2005 General Obligation Warrants, dated October 1, 2005, due in semi-annual installments through October 1, 2030, bearing interest rates of 3.25% to 4.375% (less: unamortized discounts of \$78,940).	8,311,060	-
2006A General Obligation Warrants, dated December 1, 2006, due in semi-annual installments through November 1, 2021, bearing interest rates of 3.5% to 4.0% (less: unamortized discounts of \$40,200 and unamortized deferred amount on refunding of \$398,544, plus: unamortized premiums of \$129,499).	192,330	6,738,425
2006B General Obligation Warrants, dated December 1, 2006, due in semi-annual installments through November 1, 2022, bearing interest rates of 3.75% to 4.0% (less: unamortized discounts of \$43,450 and unamortized deferred amount on refunding of \$412,657, plus: unamortized premiums of \$138,683).	318,772	7,883,804
2010A General Obligation Warrants, dated August 13, 2010, due in semi-annual installments through August 15, 2019, bearing interest of 2.57% (less: unamortized deferred amount on refunding of \$11,698).	-	3,953,302
2010B General Obligation Warrants, dated August 13, 2010, due in semi-annual installments through August 15, 2019, bearing interest of 2.57% (less: unamortized deferred amount on refunding of \$28,265).	-	5,636,735
Total Warrants Payable	<u>\$ 9,161,220</u>	<u>\$ 37,394,769</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

City of Pelham, Alabama

September 30, 2012

NOTE E – LONG-TERM DEBT – CONTINUED

	Balance October 1, <u>2011</u>	Issues or <u>Additions</u>	Payments or <u>Expenditures</u>	Balance September 30, <u>2012</u>	Due within <u>one year</u>
<u>Governmental Activities:</u>					
Notes Payable	\$ 206,185	\$ 165,611	\$ 145,817	\$ 225,979	\$ 124,033
General Obligation Warrants	9,481,558	-	320,338	9,161,220	353,983
Capital Lease Payable	5,916	-	5,916	-	-
Other Post Employment Benefit Payable	806,183	270,572	-	1,076,755	-
Compensated Absences	<u>1,519,337</u>	<u>1,352,150</u>	<u>1,322,237</u>	<u>1,549,250</u>	<u>774,625</u>
Total Governmental Activities	<u>\$ 12,019,179</u>	<u>\$ 1,788,333</u>	<u>\$ 1,794,308</u>	<u>\$ 12,013,204</u>	<u>\$ 1,252,641</u>
<u>Business-type Activities:</u>					
General Obligation Warrants	\$ 40,520,792	\$ -	\$ 3,126,023	\$ 37,394,769	\$ 3,569,750
Compensated Absences	331,313	251,053	216,327	366,039	183,020
Deferred Revenue	<u>84,000</u>	<u>10,895</u>	<u>14,000</u>	<u>80,895</u>	<u>16,724</u>
Total Business-type Activities	<u>\$ 40,936,105</u>	<u>\$ 261,948</u>	<u>\$ 3,356,350</u>	<u>\$ 37,841,703</u>	<u>\$ 3,769,494</u>

For governmental activities, notes payable, general obligation warrants, capital leases, other post employment benefits payable, and compensated absences are liquidated by the General Fund.

Annual requirements to retire debt obligations –

The annual aggregate maturities of governmental activities for the years subsequent to September 30, 2012, are as follows:

Year Ending September 30,	Governmental Activities			
	Notes Payable		General Obligation Warrants	
	Principal	Interest	Principal	Interest
2013	\$ 124,033	\$ 2,904	\$ 361,505	\$ 370,425
2014	78,404	1,041	367,253	355,952
2015	23,542	103	399,743	340,778
2015	-	-	432,783	324,706
2016	-	-	445,097	304,192
2017-2021	-	-	2,426,949	1,262,951
2022-2026	-	-	2,474,027	765,354
2027-2031	-	-	<u>2,330,000</u>	<u>207,990</u>
	<u>\$ 225,979</u>	<u>\$ 4,048</u>	<u>\$ 9,237,357</u>	<u>\$ 3,932,348</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

City of Pelham, Alabama

September 30, 2012

NOTE E – LONG-TERM DEBT – CONTINUED

The annual aggregate maturities of business activities for the years subsequent to September 30, 2011, are as follows:

Year Ending September 30,	Business-type Activities	
	General Obligation Warrants	
	Principal	Interest
2013	\$ 3,778,494	\$ 1,391,022
2014	3,732,747	1,255,934
2015	3,535,257	1,121,567
2015	4,162,217	990,255
2016	4,074,903	838,700
2017-2021	17,218,051	1,932,151
2022-2026	1,975,974	40,394
	<u>\$ 38,477,643</u>	<u>\$ 7,570,023</u>

In a prior year, Pelham Water and Sewer defeased \$14,255,000 of Series 1998 Warrants and \$1,814,322 of Series 2000 Warrants by placing new warrant proceeds in an irrevocable trust to provide for future debt service payments on the defeased warrants. Accordingly, the trust account assets and liability for the defeased warrants are not included in the government's financial statements. At September 30, 2012, \$13,089,666 of defeased warrants are still outstanding.

In a prior year, Pelham Civic Complex defeased \$5,725,000 of Series 1996 Warrants by placing new warrant proceeds in an irrevocable trust to provide for future debt service payments on the defeased warrants. Accordingly, the trust account assets and liability for the defeased warrants are not included in the government's financial statements. At September 30, 2012, \$4,810,000 of defeased warrants are still outstanding.

In a prior year, Pelham Racquet Club defeased \$1,885,678 of Series 2000 Warrants by placing new warrant proceeds in an irrevocable trust to provide for future debt service payments of the defeased warrants. Accordingly, the trust account assets and liability for the defeased warrants are not included in the government's financial statements. At September 30, 2012, \$1,735,334 of defeased warrants are still outstanding.

NOTE F – DEFERRED REVENUE

In the current year, Ballantrae Golf received software valued at \$13,618 from a corporation in exchange for rounds of golf to be used over the next five years. In a prior year, Ballantrae Golf Club received a \$140,000 donation from a corporation to be used over ten years for the purchase of supplies. Ballantrae Golf Club reports deferred revenue for assets that have been received related to revenues that are not yet recognizable. At September 30, 2012, deferred revenues to be recognized within one year were \$16,724. Deferred revenues to be recognized in more than one year were \$64,171.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

City of Pelham, Alabama

September 30, 2012

NOTE G – OPERATING LEASES

In the year ended September 30, 2012, the City had an operating lease for park equipment. The total spent on operating leases by the City amounted to \$31,059.

In the year ended September 30, 2012, Ballantrae Golf Club had operating leases for maintenance equipment and for golf and beverage carts. The total spent on operating leases by Ballantrae Golf Club was \$39,353. The future minimum lease payments for the golf course maintenance equipment and golf and beverage carts are as follows:

<u>Year Ended September 30,</u>	<u>Business-type Activities</u>
2013	\$ 50,920
2014	50,920
2015	<u>16,973</u>
	<u>\$ 118,813</u>

NOTE H – PENSION PLAN

Plan Description

The City of Pelham contributes to the Employees' Retirement System of Alabama, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for the various state agencies and departments.

Substantially all employees are members of the Employees' Retirement System of Alabama. Membership is mandatory for covered or eligible employees of the City of Pelham. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method that yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, and (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method, retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

The Employees' Retirement System was established as of October 1, 1945, under the provisions of Act 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for State employees, State police, and on an elective basis to all cities, counties, towns and quasi-public organizations. The responsibility for general administration and operation of the Employees' Retirement System is vested in the Board of Control. Benefit provisions are established by the Code of Alabama 1975, Sections 36-27-1 through 36-27-103, as amended, Sections 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama.

However, the Legislature has granted the Commission authority to accept or reject various Cost-Of-Living-Adjustments (COLAs) granted to retirees.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

City of Pelham, Alabama

September 30, 2012

NOTE H – PENSION PLAN – CONTINUED

Funding Policy

Pelham Employees' Pension Plan members are required to contribute 5% of their annual covered salary, except for certified full-time police and firefighters, who, as of January 1, 2001, are required to contribute 6% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 11.20% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by The Retirement Systems of Alabama.

Annual Pension Cost

For September 30, 2012, the City's annual pension cost of \$1,874,710 was equal to the City's required and actual contributions. The required contribution was determined as part of the September 30, 2011, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8.00% investment rate of return (b) projected salary increases ranging from 3.75% to 7.25% per year and (c) no cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of assets was determined using the 5-year smoothed market method. Pelham Employees' Pension Plan unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis.

The remaining amortization period at September 30, 2011, was 30 years.

Three Year Trend Information			
Fiscal Year	Annual	Percentage	Net Pension
Ending	Annual	of Annual	Net Pension
September 30	Pension Costs	Pension Cost	Obligation (NPO)
		Contributed	
2011	\$ 2,167,574	100.0%	\$0
2010	\$ 1,989,026	100.0%	\$0
2009	\$ 1,980,028	100.0%	\$0

As of the most recent actuarial valuation date, funding progress on the plan is as follows:

Actuarial	Actuarial	Accrued	Unfunded	Funded	Covered	Percentage
Valuation	Value of	Liability	AAL	Ratio	Payroll	of
Date	Assets	(AAL)	(UAAL)	(a/b)	(c)	Covered
	(a)	Entry Age	(b-a)			Payroll
		(b)				(b-a/ c)
9/30/2011	35,468,958	57,771,595	22,302,637	61.4%	17,478,629	127.6%

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

City of Pelham, Alabama

September 30, 2012

NOTE I – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund transfers during the year ended September 30, 2012, were as follows:

<u>Transfers Out</u>	<u>Transfers In</u>					<u>Total</u>
	<u>General Fund</u>	<u>Water & Sewer</u>	<u>Civic Complex</u>	<u>Racquet Club</u>	<u>Ballantrae Golf</u>	
General Fund	\$ -	2,723	\$ 809,916	\$ 485,325	\$ 495,000	\$ 1,792,964
Civic Complex	-	447	-	-	-	447
Garbage Fund	118,273	-	-	-	-	118,273
Rental Fund	440,074	-	-	-	-	440,074
	<u>\$ 558,347</u>	<u>\$ 3,170</u>	<u>\$ 809,916</u>	<u>\$ 485,325</u>	<u>\$ 495,000</u>	<u>\$ 2,351,758</u>

- Transfers from the General Fund to proprietary funds are in accordance with the normal course of the City's operations.
- Transfers between various proprietary funds are in accordance with the normal course of the City's operations.

Interfund payables and receivables at September 30, 2012, were as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ -	\$ 20,829
Special Revenue	17,529	
Rental Fund	<u>3,300</u>	<u>-</u>
Totals	<u>\$ 20,829</u>	<u>\$ 20,829</u>

Interfund payables and receivables resulted from reimbursements made by the General Fund to the Special Revenue for various operating expenses. Interfund payables from the General Fund to the Rental Fund were for refundable customer deposits, held by the General Fund for the Rental Fund.

NOTE J – COMMITMENTS

Pelham Water and Sewer System had contractual commitments at September 30, 2012 of \$1,370,625 for improvements to the waste water treatment plant.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

City of Pelham, Alabama

September 30, 2012

NOTE K – CONTINGENCIES

The City is a defendant in a number of lawsuits that have arisen in the normal course of business. While substantial damages are alleged in some of these actions, their outcomes cannot be predicted with certainty. In the opinion of the City's General Counsel, these actions when finally adjudicated will not have a material adverse effect on the financial position of the City.

NOTE L – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers' compensation; and natural disaster for which the City carries commercial insurance.

NOTE M – OTHER POST-EMPLOYMENT BENEFITS

By ordinance, on December 20, 1993, and as amended on November 20, 1995, and November 5, 2001, the City elects to pay 80% of the health insurance premiums of retired employees and/or their surviving spouse. The employee has the option of single or family coverage City Health Insurance. For eligible retired employees receiving a retirement check from the City or State, the City will pay 80% of the normal group rate premium of the applicable standard policy of the City per month, not to exceed amounts determined by state retirement. The employee will pay the balance, until the eligible retired employee takes other employment that offers health insurance or has a family income of \$21,000 or more a year from gainful employment, whichever occurs first. If a City employee retires before he/she is eligible for a retirement check, but the employee has ten (10) years City Retirement eligibility, the employee will have the option of COBRA or the City coverage for eighteen (18) months. After that period, insurance coverage is at the employee's own cost and risk. At such time the employee is eligible to receive a retirement check, he/she may go back under Standard Retiree City Coverage.

A description of the post employment medical benefit plan is as follows:

Plan Description

The City of Pelham's medical benefits are provided to employees upon actual retirement. The earliest retirement eligibility provisions are as follows: 10 years of service and attainment of age 60; or 25 years of service at any age. Dental insurance coverage is provided to retirees. The employer pays a flat \$25 monthly for the cost of dental insurance for the retirees. All of the assumptions used for the valuation of the medical benefits have been used for dental including zero trends. The plan provisions are contained in the official plan documents. The plan does not issue a publicly available financial report.

Contribution Rates

Employees do not contribute to their post employment benefits costs until they become retirees and begin receiving benefits. The plan provisions and contribution rates are contained in the official plan documents.

Fund Policy

Prior to fiscal year 2008, the City of Pelham recognized the cost of providing post-employment medical benefits as an expense when the benefit premiums were due, and thus, financed the cost of the post-employment benefits on a pay-as-you-go basis. Effective with the Fiscal Year beginning October 1, 2008, the City of Pelham implemented Government Accounting Standards Board Statement Number 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other than Pensions* (GASB 45). The funding policy is not to fund the ARC except to the extent of the current year's retiree funding costs.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

City of Pelham, Alabama

September 30, 2012

NOTE M – OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

For the year ended September 30, 2012, the City's portion of health care and dental funding cost for retired employees totaled \$341,432. These amounts were applied toward the net OPEB Benefit Obligation are shown on the next page.

Annual Required Contribution

The City of Pelham's Annual Required Contribution (ARC) is an amount actuarially determined in accordance with GASB 45. The Annual Required Contribution (ARC) is the sum of the Normal Cost plus the contribution to amortize the Actuarial Accrued Liability (AAL). A level dollar, closed amortization period of 30 years, the maximum amortization period allowed by GASB 43/45, has been used for the post-employment benefits. The total ARC for the fiscal year beginning October 1, 2011 is \$626,378, as set forth below:

		Medical
Normal Cost	\$	218,875
30-year UAL amortization amount		<u>407,503</u>
Annual required contribution (ARC)	\$	<u><u>626,378</u></u>

Net Post-employment Benefit Obligation

The table below shows the City of Pelham's Net Other Post-employment Benefit (OPEB) Obligation for fiscal year ending September 30, 2012:

		Medical
Beginning Net OPEB Obligation 10/1/2011	\$	806,183
Annual required contribution		626,378
Interest on Net OPEB Obligation		32,248
ARC Adjustment		<u>(46,622)</u>
OPEB Cost		612,004
Contribution		-
Current year retiree premium		<u>(341,432)</u>
Change in Net OPEB Obligation		270,572
Ending Net OPEB Obligation 9/30/2012	\$	<u><u>1,076,755</u></u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

City of Pelham, Alabama

September 30, 2012

NOTE M – OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

The following table shows the City of Pelham’s annual post employment benefits (PEB) cost, percentage of the cost contributed, and the net unfunded post employment benefits (PEB) liability:

Three Year Trend Information				
Post Employment Benefit	Fiscal Year Ending September 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (NPO)
Medical/Dental	2012	\$ 612,004	55.79%	\$1,076,755
Medical/Dental	2011	\$ 573,019	42.09%	\$806,183
Medical/Dental	2010	\$ 556,131	44.71%	\$481,828

Funded Status and Funding Progress

In the fiscal year ending September 30, 2012, the City of Pelham made no contributions to its post employment benefits plan. The plan was not funded at all, has no assets, and hence has a funded ratio of zero. As of October 1, 2011, the most recent actuarial valuation, the projected Actuarial Accrued Liability (AAL) was \$7,046,361, which is defined as that portion, as determined by the unit credit cost method, of the actuarial present value of post employment plan benefits and expenses which is not provided by normal cost. Since the plan was not funded in fiscal year 2012, the entire actuarial accrued liability of \$7,046,361 was unfunded.

	Medical
Actuarial Accrued Liability (AAL)	\$ 7,046,361
Actuarial Value of Plan Assets	-
Unfunded Act. Accrued Liability (UAAL)	<u>7,046,361</u>
Funded Ratio (Act. Val. Assets/AAL)	0%
Covered Payroll (active plan members)	17,184,204
UAAL as a percentage of covered payroll	41.0%

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The actuarial valuation for post employment benefits includes estimates and assumptions regarding (1) turnover rate; (2) retirement rate; (3) health care cost trend rate; (4) mortality rate; (5) discount rate (investment return assumption); and (6) the period to which the costs apply (past, current, or future years of service by employees). Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

City of Pelham, Alabama

September 30, 2012

NOTE M – OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

The actuarial calculations are based on the types of benefits provided under the terms of the substantive plan (the plan as understood by the City of Pelham and its employee plan members) at the time of the valuation and on the pattern of sharing costs between the City of Pelham and its plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the City of Pelham and plan members in the future. Consistent with the long-term perspective of actuarial calculations, the actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial liabilities and the actuarial value of assets.

Actuarial Cost Method

The ARC is determined using the Projected Unit Credit Cost Method. The employer portion of the cost for retiree medical care in each future year is determined by projecting the current cost levels using the healthcare cost trend rate and discounting this projected amount to the valuation date using the other described pertinent actuarial assumptions, including the investment return assumption (discount rate), mortality, and turnover.

Actuarial Value of Plan Assets

Since the plan has not been funded, there are not any assets. It is anticipated that in future valuations, should funding take place, a smoothed market value consistent with Actuarial Standards Board ASOP 6, as provided in paragraph number 125 of GASB Statement 45, will be used.

Turnover Rate

An age-related turnover scale based on actual experience as described by administrative staff has been used. The rates, when applied to the active employee census, produce an annual turnover of approximately 10%. The rates for each age are below:

<u>Age</u>	<u>Percent Turnover</u>
18 - 25	20.0%
26 - 40	12.0%
41 - 54	8.0%
55+	6.0%

Post employment Benefit Plan Eligibility Requirements

Based on past experience, it has been assumed that entitlement to benefits for future retirees will commence five years after earliest eligibility to retire, as described under the heading "Plan Description", but not before attainment of age 60. The age 60 minimum has been used because historically, the vast majority of employees have waited until age 60 in order to secure the 80% employer premium payment. Medical benefits are provided to employees upon actual retirement. The retirement eligibility provisions are as follows: 25 years of service at any age; or, age 60 and 10 years of service. Entitlement to benefits continues through Medicare to death.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

City of Pelham, Alabama

September 30, 2012

NOTE M – OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

Investment Return Assumption (Discount Rate)

GASB Statement 45 states that the investment return assumption should be the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits. Since the ARC is not currently being funded and is not expected to be in the near future, a 4% annual investment return has been used in this valuation. This is a conservative estimate of the expected long term return of a balanced and conservative investment portfolio under professional management.

Health Care Cost Trend Rate

The expected rate of increase in medical cost is based on projections performed by the Office of the Actuary at the Centers for Medicare & Medicaid Services as published in National Health Care Expenditures Projections: 2003 to 2013, Table 3: National Health Expenditures, Aggregate and per Capita Amounts, Percent Distribution and Average Annual Percent Change by Source of Funds: Selected Calendar Years 1990-2013, released in January, 2004 by the Health Care Financing Administration (www.cms.hhs.gov). "State and Local" rates for 2008 through 2013 from this report were used, with rates beyond 2013 graduated down to an ultimate annual rate of 5.0% for 2016 and later.

Mortality Rate

The 1994 Group Annuity Reserving (94GAR) table, projected to 2002, based on a fixed blend of 50% of the unloaded male mortality rate and 50% of the unloaded female mortality rates, was used. This is the mortality table which the Internal Revenue Service requires to be used in determining the value of accrued benefits in defined benefit pension plans

Method of Determining Value of Benefits

The "value of benefits" has been assumed to be the portion of the premium after retirement date expected to be paid by the employer for each retiree and has been used as the basis for calculating the actuarial present value of OPEB benefits to be paid. The employer pays for 80% of the gross premium for those retiring on or before November 1, 2003. For those retiring after November 1, 2003, the employer pays 80% for those retiring on and after age 60, and 50% for those retiring before age 60. The gross rates provided were "unblended" rates as required by GASB 45 for valuation purposes.

Inflation Rate

Included in both the Investment Return Assumption and the Healthcare Cost Trend rates above, is an implicit inflation assumption of 2.50% annually.

Projected Salary Increases

This assumption is not applicable since neither the benefit structure nor the valuation methodology involves salary.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

City of Pelham, Alabama

September 30, 2012

NOTE M – OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

Post-retirement Benefit Increases

The plan benefit provisions in effect for retirees as of the valuation date have been used and it has been assumed for valuation purposes that there will not be any changes in the future.

NOTE N – CONDUIT DEBT

From time to time, the City's Industrial Development Board and the Public Park and Recreation Board have issued bonds to provide assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of September 30, 2012, the aggregate principal amount payable is \$18,259,922.

NOTE O – SUBSEQUENT EVENTS

On January 8, 2013, the City Council resolved to authorize the Mayor to settle a lawsuit between the City and the City's personnel board and multiple employees and former employees. The cost of the settlement to the City was \$100,820.

City of Pelham, Alabama
 Required Supplementary Information
 Schedule of Funding Progress
 For the Year Ended September 30, 2012

City of Pelham Employee Pension Plan (Retirement Systems of Alabama)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b) ¹	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
9/30/2006 ²	23,996,932	38,002,399	14,005,467	63.1%	14,552,630	96.2%
9/30/2007	27,702,040	42,625,185	14,923,145	65.0%	15,413,935	96.8%
9/30/2008	30,451,191	47,248,376	16,797,185	64.4%	16,023,367	104.8%
9/30/2009	32,416,387	52,875,659	20,459,272	61.3%	16,955,344	120.7%
9/30/2010 ³	33,888,488	55,695,437	21,806,949	60.8%	17,057,626	127.8%
9/30/2011 ⁴	35,468,958 *	57,771,595	22,302,637	61.4%	17,478,629	127.6%

¹ Reflects liability for cost of living benefit increases granted on or after October 1, 1978.

² Reflects changes in actuarial assumptions.

³ Reflects the impact of Act 2011-27, which closes the DROP program to new applicants after March 24, 2011.

⁴ Reflects changes in actuarial assumptions.

* Market Value of Assets as of September 30, 2011: \$30,940,954

For information regarding assumptions and amortization methods, see Note H.

City of Pelham Post Employment Benefit Health Insurance Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
10/1/2009	-	6,158,076	6,158,076	0.0%	16,955,344	36.3%
10/1/2010	-	6,404,399	6,404,399	0.0%	17,057,626	37.5%
10/1/2011	-	7,046,361	7,046,361	0.0%	17,184,204	41.0%

For information regarding assumptions and amortization methods, see Note M.

City of Pelham, Alabama
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended September 30, 2012

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Amounts on Budgetary Basis
	Original	Final			
Operating Revenues:					
Taxes:					
Sales	\$ 14,583,500	\$ 14,583,500	\$ 16,117,454	\$ (100,591)	\$ 16,016,863
Property	5,150,000	5,150,000	5,320,435	12,360	5,332,795
Motor Vehicle / Gas	580,000	580,000	576,161	(99)	576,062
Other	149,250	149,250	186,530	(364)	186,166
Licenses and Permits	3,690,100	3,690,100	3,913,059	-	3,913,059
Fines and Forfeitures	472,500	472,500	393,526	-	393,526
Charges for services	182,185	182,185	177,795	(30)	177,765
Interest	150,000	150,000	140,748	35,413	176,161
Other	191,022	198,022	470,894	153,049	623,943
Total Revenues	25,148,557	25,155,557	27,296,602	99,738	27,396,340
Expenditures:					
Current:					
General Administration	3,830,839	3,855,256	3,670,911	25,468	3,696,379
Police	7,676,512	7,676,512	7,170,080	5,828	7,175,908
Fire	7,477,845	7,503,639	7,471,093	8,773	7,479,866
Public Works	2,119,543	2,119,543	2,088,543	68,810	2,157,353
Parks and Recreation	981,905	981,905	941,287	(4,014)	937,273
Library	1,022,783	1,029,783	1,040,955	3,087	1,044,042
Debt Service:					
Principal	876,953	876,953	479,863	-	479,863
Interest	-	-	388,639	-	388,639
Capital Outlay	43,200	57,406	416,681	49,015	465,696
Total Expenditures	24,029,580	24,100,997	23,668,052	156,967	23,825,019
Excess (Deficiency) of Revenues over Expenditures	1,118,977	1,054,560	3,628,550	(57,229)	3,571,321
Other Financing Sources (Uses):					
Proceeds from sale of capital assets	-	-	-	-	-
Proceeds from notes payable	-	-	165,611	-	165,611
Transfers in	-	-	2,839,315	(3,468)	2,835,847
Transfers out	(2,127,103)	(2,127,103)	(4,073,932)	-	(4,073,932)
Total Other Financing Sources (Uses)	(2,127,103)	(2,127,103)	(1,069,006)	(3,468)	(1,072,474)
Net Change in Fund Balance	\$ (1,008,126)	\$ (1,072,543)	\$ 2,559,544	\$ (60,697)	\$ 2,498,847

Notes to Required Supplementary Information - Budget Comparisons

A. Budgetary Basis

The City of Pelham prepares its annual budget on the cash basis of accounting, which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the City's budget basis in the Budgetary Comparison Schedule. Adjustments to reconcile budget information to GAAP information can also be found in the Budgetary Comparison Schedule.

STATISTICAL INFORMATION
(UNAUDITED)

ASSESSED VALUE OF TAXABLE PROPERTY
(UNAUDITED)

City of Pelham, Alabama

September 30, 2012

	<u>Property</u> <u>Assessed Value</u> <u>(after exemptions)</u>		<u>Motor</u> <u>Vehicles</u>		<u>Total</u>
2012	\$ 343,448,440		\$ 52,680,940		\$ 396,129,380
2011	345,077,300		49,913,860		394,991,160
2010	354,051,740		46,498,820		400,550,560
2009	356,232,540		49,349,640		405,582,180
2008	348,982,660		53,187,560		402,170,220
2007	327,987,780		55,520,280		383,508,060
2006	289,867,400		53,368,880		343,236,280
2005	272,441,280		47,323,660		319,764,940
2004	258,499,640		41,601,440		300,101,080
2003	243,532,060		40,496,320		284,028,380
2002	204,910,420		39,599,820		244,510,240
2001	192,261,880		38,096,180		230,358,060
2000	177,212,220		30,767,420		207,979,640
1999	171,236,680		22,268,780		193,505,460
1998	136,092,480		19,689,360		155,781,840
1997	124,348,480		15,715,220		140,063,700
1996	115,788,440		13,701,820		129,490,260
1995	100,099,160		11,753,020		111,852,180
1994	89,684,400		9,499,780		99,184,180

Source: Shelby County Tax Assessor

TOP TEN PROPERTY TAXPAYERS
(UNAUDITED)

City of Pelham, Alabama

September 30, 2012

Taxes assessed 10/01/10 through 9/30/11 and paid 10/01/11 through 09/30/12.

Alabama Power Company	\$ 132,179
Colonial Pipeline Company	98,838
Edwin B. Lumpkin Jr.	54,733
Vulcan Threaded Products, Inc.	53,028
Wal-Mart Real Estate Business Trust	43,442
Amerisource Bergen Corp	40,663
Huntley Hall Apartments, Ltd.	36,084
Industrial Development Board of Pelham	26,998
HHH Acquisition Company, LLC	24,954
Sharp Pelham, LLC	22,466

WATER AND SEWER SYSTEM CUSTOMER INFORMATION
(UNAUDITED)

City of Pelham, Alabama

September 30, 2012

The number of customers of the System as of September 30 of the indicated year is as follows:

	<u>Water</u>	<u>Sewer</u>
2012	11,717	6,805
2011	11,615	6,788
2010	11,547	6,767
2009	11,473	6,735
2008	11,275	6,636
2007	11,069	6,531
2006	10,713	6,429
2005	10,295	6,279
2004	9,526	5,851
2003	9,198	5,665
2002	8,893	5,420
2001	8,488	5,104
2000	8,087	4,836
1999	7,633	4,536
1998	7,202	4,186

The ten largest customers of the Sewer System for the year ended September 30, 2012 are as follows:

<u>Customer</u>	<u>Average Amount Paid</u> <u>Monthly for the year ended 09/30/12</u>
Green Park South MHP	\$ 32,446
Belle Vista MHP	11,038
The Huntley Apartments	6,898
Golden Corral	5,409
Little Mountain Apartments	4,452
Southgate MHP	4,402
Cracker Barrel	3,332
Cole Companies-Meadowwood Apts.	3,049
Marc I Car Wash	2,634
Shiva Properties	2,560

WATER AND SEWER SYSTEM RATES
(UNAUDITED)

City of Pelham, Alabama

September 30, 2012

The water rates as of September 30, 2012 are as follows:

Residential	\$13.00 minimum on the first 3,000 gallons \$3.13 per 1,000 gallons thereafter
Commercial	\$13.00 minimum on the first 3,000 gallons \$3.13 per 1,000 gallons thereafter

The sewer rates as of September 30, 2012 are as follows:

Residential	\$24.30 minimum on the first 3,000 gallons \$7.30 per 1,000 gallons thereafter
Social Security or Social Security Disability	\$22.00 minimum on the first 3,000 gallons \$4.00 per 1,000 gallons thereafter
Access but not connected	Flat rate \$24.30 per thousand gallons
Commercial	\$60.75 minimum on the first 7,500 gallons \$ 8.10 per 1,000 gallons thereafter
Significant commercial	\$88.00 minimum on the first 7,500 gallons \$11.74 per 1,000 gallons thereafter
Impact fees-residential	\$3,000 per household
Impact fees-commercial	\$3,000 minimum for the first 15 fixtures \$ 200 per fixture above the minimum

